

# Inflation continued to remain at single digit level in 2012

Inflation, as measured by the Colombo Consumers' Price Index (CCPI) (2006/07=100) computed by the Department of Census and Statistics, continued to remain at single digit level for the 47th consecutive month in December 2012. Inflation decreased to 9.2 per cent in December 2012 on a year-on-year (YoY) basis from 9.5 per cent in the previous month. However, the inflation rate on an annual average basis increased to 7.6 per cent in December 2012 from 7.2 per cent in November 2012.

Core inflation, which is computed by excluding the items of fresh food, energy, transport, rice and coconut from the CCPI basket, increased both on a YoY and annual average basis to 7.6 per cent and 5.8 per cent, respectively, in December 2012 from 7.2 per cent and 5.6 per cent, respectively, in November 2012.

#### Price Movements in 2012

The rate of annual average inflation decreased continuously to 5.6 per cent in May 2012 from 6.7 per cent in December 2011. However, this trend reversed subsequently and increased to 7.6 per cent in December 2012.

The contribution to the annual average increase in the Index came mainly from price increases in the Non-food category (10.0 per cent). Accordingly, average prices in the sub categories of Clothing and footwear (9.8 per cent); Housing, water, electricity, gas and other fuels (9.6 per cent); Furnishing, household equipment and routine household maintenance (6.7 per cent); Health (3.0 per cent); Transport (21.6 per cent); Recreation and culture (4.0 per cent); Education (0.5 per cent); and Miscellaneous goods and services (4.1 per cent) increased in 2012 compared to

the previous year. Meanwhile, prices in the Food category also increased by 4.7 per cent. However, the prices in the sub category of Communication remained unchanged during the year.

The average price of rice increased slightly by 0.7 per cent in 2012 when compared to 2011 mainly due to lower paddy harvest of the Yala season which was largely affected by the drought conditions.

Although the price of almost all varieties of rice recorded a continuous decline from January to May 2012, it began to increase from June 2012. However, the bumper paddy harvest recorded in the Maha season of 2011/12 and the continuation of price ceiling on rice imposed by the Government since end 2010 would have helped to contain the rise in the price of rice.

The weighted average price of vegetables recorded a decline of about 3 per cent in 2012 when compared to the previous year. The price of most varieties of vegetables declined significantly in February and recorded the lowest level during the period of March - April due to improvements in supply conditions. However, prices increased during May - July and November - December 2012 mainly due to adverse weather conditions that prevailed in the island. As a result of above price developments, the weighted average price of the vegetable sub group recorded a decline in 2012.

The average price of both coconut and coconut oil declined in 2012 compared to 2011. The price of coconut, which remained high in the first five months of 2012, declined significantly thereafter indicating the lowest level in August 2012. However, it showed

an increasing trend since then. Despite the price of coconut oil moving upward during the latter part of the year, it recorded the lowest level in September 2012 declining further from the low levels recorded during the period February to March 2012. As a result, average price of both coconut and coconut oil decreased by 19.2 per cent and 21.9 per cent, respectively in 2012.

The weighted average price of fresh fish and seafood increased by 10.2 per cent in 2012, when compared to 2011. However, the weighted average price of both large and small fish was low during the period from February to April due to seasonal factors. Meanwhile, the price of all varieties of dried fish increased in 2012 in line with the increase in fish prices. In contrast, the price of eggs dropped significantly by 6.7 per cent in 2012 compared to 2011 mainly due to the improvement in local production.

Further, the upward price revision of diesel, petrol, kerosene, LP gas, wheat flour, bread and milk powder in line with price movements in international markets, also exerted upward pressure on the CCPI. Subsequent revisions to bus fares and electricity charges led by fuel price increases also contributed to the rise in inflation.

Moreover, the upward duty revisions of several imported items, such as sugar, dhal, big onion, Maldivian fish and garlic, as well as the depreciation of the rupee against major currencies exerted upward pressure on inflation.

However, improved supply of vegetables and the downward adjustment of import duties on certain essential food commodities had a favourable impact on the general price level.

